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Strength

Stability

Value

Laniuk
Industries Inc.

Annual Report 2002

CORPORATE OVERVIEW

Laniuk Industries Inc. was created in 1998 through the amalgamation of two well-established private companies, RJV Gas Field Services Ltd. and Ezee-On Mfg. Ltd. Fiscal 2002 was the consolidated company's fourth year of operation as a public company.

Ezee-On Mfg. Ltd., established in 1949, manufactures agricultural equipment, including implements for tilling and seeding. This division's products are sold primarily in Canada, the United States and Australia.

RJV Gas Field Services Ltd., established in 1976, manufactures wellsite and production equipment for the oil and gas industry in Western Canada. The company focuses on equipment for natural gas production.

Corporate headquarters and manufacturing facilities for the two wholly owned subsidiaries are in Vegreville, Alberta, which is located southeast of Edmonton. With an average (seasonally adjusted) workforce of approximately 200, Laniuk Industries is a major employer in Vegreville.

TSX Venture Exchange: LII
Fiscal Year-end: August 31

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2002 Highlights

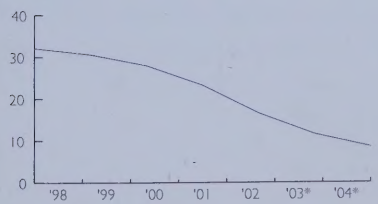
Creating solid value in a dynamic marketplace

In fiscal 2002, its fourth year of operation, Laniuk Industries Inc. demonstrated continued strength and stability. Despite reduced revenues, the result of significantly decreased activity in the oil and gas sector, the Company continued to build shareholder value through increasing cash flow from operations, improving margins and, most important, significantly reducing long-term debt.

Financial Highlights
($ million except per share amounts)

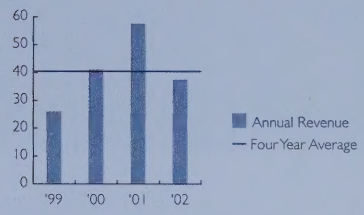
	2002	2001
Consolidated revenues	$ 37.46	$ 57.62
Consolidated gross profit	14.57	20.40
Cash flow from operations	7.49	7.39
Interest on operating debt	0.47	0.87
Interest on long-term debt	1.10	2.16
Long-term debt	16.50	23.21
Net earnings	3.06	4.77
Earnings per share (basic)	0.08	0.17
Earnings per share (diluted)	0.07	0.10

Long-Term Bank Debt
($ million at fiscal year-end)

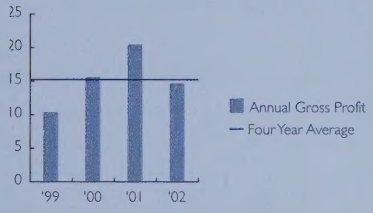


*(Scheduled)

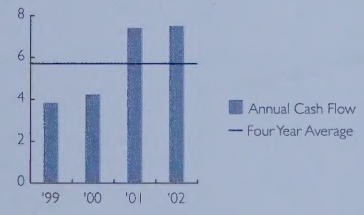
Consolidated Revenue
($ million)



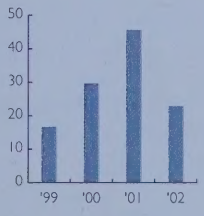
Consolidated Gross Profit
($ million)



Cash Flow from Operations
($ million)



RJV Sales
($ million)



Ezee-On Sales
($ million)

President's Report

To Our Shareholders:

Laniuk Industries Inc.'s two wholly owned subsidiaries have long histories of success and profit, even during industry down cycles. The financial performance of Laniuk Industries in fiscal 2002 compared to the previous year shows how, in today's dynamic marketplace, some things never change:

- Revenue from the oil and gas sector decreased about 50% due to significant declines in drilling in Western Canada.
- Revenue from the agricultural sector increased 21.4% due to increases in commodity prices and sales.
- Consolidated revenues decreased 35%.
- Consolidated gross profit, as a percentage of revenue, improved to 38.9%.
- Consolidated cash flow from operations increased slightly.
- Interest on operating debt decreased due to a lower average balance and low interest rates.
- Interest on long-term debt decreased significantly due to aggressive debt reduction and a decline in the average interest rate for the year.

Despite lower consolidated revenues, Laniuk Industries enjoyed its fourth consecutive year of strong financial performance.

At the time of writing, the oil and gas industry has reversed its 2002 trend and is now aiming for record drilling in 2003, and it appears that drought conditions will continue to cause reductions in crop yields in both Australia and North America. However, we are confident the Company will respond to these changing market conditions with continued efficiency and profitability.

Achieving Strong Financial Performance

Consolidated revenue declined to $37.46 million in fiscal 2002 from $57.62 million in fiscal 2001, which reflects the impact of reduced activity in Western Canada's oil and gas industry. Consolidated gross profit, however, was 38.9% in 2002 compared to 35.4% in 2001. Cash flow from operations was strong in fiscal 2002 and, in fact, improved slightly compared to the year before ($7.49 million versus $7.39).

Due to the Company's strong cash flow, term debt was reduced by $6.8 million in fiscal 2002. In January 2003, we announced the restructuring of long-term debt by consolidating 100% of our credit facilities with the Canadian Imperial Bank of Commerce. This is expected to improve cash flows while allowing aggressive repayment of debt and more financial flexibility.

Riding the Wave of Drilling Increases

A major Alberta manufacturer of wellsite production equipment, RJV Gas Field Services Ltd. primarily serves natural gas producers. In calendar 2002, natural gas consumption fell, prices dropped, producers cut capital expenditures by about a third and, consequently, fewer wells were drilled than in 2001. As a result, RJV experienced an approximate 50% decline in revenue in fiscal 2002.

Indications for the coming year are that the drawdown of natural gas reserves has been greater than anticipated. Estimates for well completions in calendar 2003 range as high as 17,532 – a 22% increase over 2002 – with the primary emphasis on natural gas.

If exploration increases as predicted and more natural gas wells are completed and brought onstream, we anticipate improved operating results from RJV beginning in the second quarter.

Making Important Inroads in Australia

Ezee-On Mfg. Ltd. experienced impressive growth in fiscal 2002, with revenue increasing 21.4% and margins strengthening throughout the year. Growth was primarily in Australia, where revenue increased 100% over the prior fiscal year. Revenue from the North American market improved 4.5%.

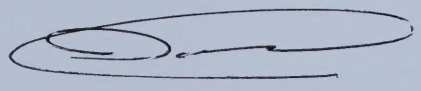
Although commodity prices remain relatively strong, harvest yields have declined in both North America and Australia due to drought conditions. As a result, farm receipts are expected to decline. The short-term outlook for the agricultural sector is less positive than last year; however, with its focus on tillage and seeding implements for large-acreage, dry-land farms, Ezee-On is certainly in the right market.

We expect revenues for Ezee-On to decline in fiscal 2003, perhaps up to 10%. However, this decline should be more than offset by anticipated improvements in revenue for RJV.

Creating Value for the Future

Laniuk Industries is entering an important period of transition – preparing to move from a defensive position to an offensive position. In four short years, we have cut in half the $32 million in debt financing that facilitated the formation of Laniuk Industries. This debt will soon be virtually paid off. We are now beginning the transition to the post-debt environment, focusing on increasing shareholder value and growing the Company. We are confident of our ability to achieve these goals.

On behalf of the Board of Directors,



Dale Laniuk
President & Chief Executive Officer

February 10, 2003
Vegreville, Alberta

Management's Discussion & Analysis

This discussion and analysis is based upon key financial information contained in the Company's audited financial statements. This discussion and analysis also contains certain forward looking statements which are subject to certain risks, uncertainties and assumptions pertaining to operating performance, economic conditions and other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. In order to obtain the best overall perspective, this discussion and analysis should be read in conjunction with the material contained in other parts of this annual report and the Company's audited consolidated financial statements and notes contained therein.

The Company's financial statements include the operations of Laniuk Industries Inc. ("the Parent Company" or "the Company"), RJV Gas Field Services Ltd. and Ezee-On Mfg. Ltd. for the year ended August 31, 2002 and Ezee-On (Australia) Pty Ltd. for the fiscal period July 1, 2001 to June 30, 2002.

The Company's shares trade on the TSX Venture Exchange under the symbol LII.

RESULTS OF OPERATIONS

Activity in the oil and gas sector retracted in 2002 after a record year in 2001. Natural gas prices dropped from the record highs of 2001 and remained relatively soft for the first two quarters of the Company's fiscal year, traditionally the busiest time of year for RJV Gas Field Services Ltd. ("RJV"). Contributing to the decline in prices was the weakness in the U.S. economy throughout the year, which resulted in less demand for natural gas and a surplus of natural gas after record production in 2001. Producers reduced capital expenditures by an estimated 33% and consequently fewer wells were drilled and brought to completion. During the fiscal year ended August 31, 2002 there were approximately 9,200 natural gas wells completed compared to about 11,000 the previous year. This represents an estimated 23% decline year over year. In addition, a significant number of the wells completed were shallow wells which require fewer services. The result was an approximate 50% decline in revenues for RJV.

The agricultural sector showed positive signs in fiscal 2002. The Company's wholly owned subsidiary, Ezee-On Mfg. Ltd. ("Ezee-On"), showed impressive growth with revenues increasing 21.4% and margins strengthening throughout the year. The growth was primarily in Australia where the investment in this marketplace began to pay off. Revenues in Australia increased 100% from the prior fiscal year. Revenues from North American customers increased by 4.5%.

	2002 ($ million)	2001 ($ million)
Consolidated Revenues	$37.46	$57.62

The decline in consolidated revenues was driven primarily by the reduced activity in the oil and gas sector. RJV's gross revenues declined to $22.8 million after record revenues of $45.6 million in fiscal 2001. Ezee-On's consolidated revenues increased to $14.6 million (2001 - $12.0 million). The growth in the agricultural sector was primarily in Australia where significant strides were made in increasing the dealer base and aggressively marketing Ezee-On products.

	2002 ($ million)	2001 ($ million)
Consolidated Gross Profit	$14.57	$20.40

Consolidated gross profit, as a percentage of revenue, was 38.9% in the current year compared to 35.4% in 2001. The increase in margins is largely the result of higher prices in the agricultural sector due to demand for Ezee-On products in Australia and a reduction of the discounting that occurred in the North American market.

General and Administration Expenses	$ 4.33	$ 4.76

General and administration expenses decreased in 2002 as management bonuses were not accrued in 2002 in accordance with the terms of the employment contracts.

Amortization of Capital Assets	$ 1.10	$ 1.33

Reduction in amortization of capital assets reflects consumption of capital assets over time.

Interest on Operating Debt	$ 0.47	$ 0.87

The decrease in operating debt interest reflects a lower average balance, as a result of continued strong cash flows from operations and, throughout this fiscal year, the continuation of the favorable interest rate environment that existed in 2001.

Interest on Long-term Debt	$ 1.10	$ 2.16

The decrease in long-term debt interest results from aggressive debt reduction during the year and a decline in the average interest rate for the year. In 2002, long-term debt was reduced by approximately $6.8 million.

Unrealized Foreign Exchange (Gains) Losses	($ 0.18)	$ 0.38

The unrealized foreign exchange (gain) loss results from restating, in Canadian dollars, the amounts owing to Ezee-On Mfg. Ltd. from its Australian subsidiary, Ezee-On (Australia) Pty. Ltd. This reflects the appreciation of the Australian dollar relative to the Canadian dollar during the year.

Liquidity

The Company generated $7.49 million in cash flows from operations compared to $7.39 million in the prior year. As a result, liquidity in the Company has continued to improve as the funds were primarily used to reduce debt. Term debt was reduced by $6.8 million and operating debt by $0.41 million. The Company invested $0.4 million in capital asset acquisitions during the year (2001 - $0.5 million). Overall, the Company's financial position is strong and sufficient resources are available to meet ongoing liquidity needs.

■ OUTLOOK FOR THE FUTURE

Ezee-On Mfg Ltd.

Commodity prices remain relatively strong; however, supply has declined due to a significant reduction in yield in both North America and Australia during harvest. Significant portions of North America suffered from prolonged drought conditions in the 2002 growing season; drought conditions are impacting production in Australia as well where rainfall is the lowest ever recorded. As a result, farm receipts are expected to decline and producers are expected to pull back from the marketplace in areas of prolonged drought. In Australia we are projecting a decline of 20% in revenues if the drought continues. In North America we expect revenues to remain relatively flat compared to fiscal 2002. Overall revenues for Ezee-On are expected to decline by approximately 6% to 10%.

RJV Gas Field Services Ltd.

Oil and natural gas prices have strengthened in the latter half of the year; however, continued weakness in the U.S. economy is expected to impact operations for the first quarter of the 2003 fiscal year. Preliminary indications are that the drawdown of natural gas reserves has been greater than anticipated and that drilling activity will have to increase to make up for reserve declines. This is reflected in the capital budgets announced recently by several of the large producers who have significantly increased their capital budgets for 2003. Estimates for well completions in 2003 range from 16,500 to 17,532 which compare to an estimated 14,323 for 2002. This represents a 22% increase over 2002, with the primary emphasis on exploration for natural gas. We expect results for RJV during the first quarter of the year to continue to be weak as producers complete the 2002 budget year. However, we anticipate improvement beginning in the second quarter, if exploration increases as predicted and natural gas wells are completed and brought on stream.

Due to the diversified nature of the Company, the effect of a decline in revenues at Ezee-On is expected to be more than offset by the anticipated improvements at RJV. Consolidated revenues and earnings for the year are expected to remain consistent with those reported for fiscal 2002.

The Company's financial position is strong; Laniuk Industries Inc. is well positioned to take advantage of an upswing in the oil and gas sector and maintain its position in the agricultural sector.

Subsequent Events

Subsequent to year-end the Company signed a letter of intent wih the Canadian Imperial Bank of Commerce ("CIBC"), a 50% partner in the credit agreement with GE Capital, to refinance its debt. Under the terms of the letter of intent, CIBC will become the sole lender by taking over the 50% position held by GE Capital. Pursuant to the letter, the revolving loan will have a maximum limit of $12,000,000. Interest will be paid monthly, in arrears at prime plus 1.50% plus an additional fee of 0.35% for the unused portion of the facility. The facility will be subject to renewal annually.

Auditors' Report

To the Shareholders of Laniuk Industries Inc.

We have audited the consolidated balance sheets of Laniuk Industries Inc. as at August 31, 2002 and August 31, 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2002 and August 31, 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

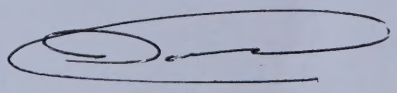
Chartered Accountants
October 25, 2002

LANIUK INDUSTRIES INC.
Consolidated Balance Sheets
As at August 31, 2002 and August 31, 2001

	2002	2001
ASSETS		
CURRENT		
Cash	$ 152,293	$ 152,841
Accounts receivable	4,667,615	10,515,911
Inventory (Note 3)	19,249,252	19,587,131
Prepaid expenses	98,573	35,901
	24,167,733	30,291,784
Capital assets (Note 4)	7,184,823	7,853,240
Deferred financing costs (Note 5)	882,198	1,323,353
Goodwill	10,830,122	11,507,006
	$ 43,064,876	$ 50,975,383
LIABILITIES		
CURRENT		
Operating loan (Note 6)	$ 4,304,162	$ 4,716,479
Accounts payable and accrued liabilities	1,796,963	5,566,953
Accrued interest on preferred shares	2,520,000	1,890,000
Income tax payable	1,394,463	2,152,572
Current portion of long-term debt (Note 7)	16,439,816	6,672,029
	26,455,404	20,998,033
Long-term debt (Note 7)	58,455	16,537,444
Redeemable preferred shares (Note 10)	9,000,000	9,000,000
	35,513,859	46,535,477
Commitments (Note 12)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	3,517,278	3,464,853
Retained earnings	4,033,739	975,053
	$ 43,064,876	$ 50,975,383

APPROVED BY THE BOARD

Dale Laniuk
DIRECTOR



William Kuzyk
DIRECTOR

See accompanying notes to the financial statements

LANIUK INDUSTRIES INC.
Consolidated Statements of Earnings and Retained Earnings
For the years ended August 31, 2002 and August 31, 2001

	2002	2001
REVENUE		
Sales (Note 14)	$ 37,382,979	$ 57,596,367
Interest income	72,057	25,441
	37,455,036	57,621,808
COST OF GOODS SOLD	22,883,298	37,222,299
GROSS PROFIT	14,571,738	20,399,509
GENERAL AND ADMINISTRATION EXPENSES		
Administration	4,331,749	4,758,350
EARNINGS BEFORE AMORTIZATION AND INTEREST	10,239,989	15,641,159
Amortization of capital assets	1,100,327	1,329,941
Amortization of deferred financing costs	441,155	441,155
Amortization of goodwill	676,884	676,884
Interest on operating debt	470,039	871,451
Interest on long-term debt	1,100,602	2,159,887
Interest on preferred shares	630,000	630,000
EARNINGS BEFORE OTHER ITEMS	5,820,982	9,531,841
Gain on sale of assets	(14,918)	(35,151)
Realized foreign exchange gains	166,786	(22,050)
Unrealized foreign exchange losses	(178,511)	380,317
EARNINGS BEFORE INCOME TAXES	5,847,625	9,208,725
INCOME TAXES		
Current (Note 8)	2,788,939	4,451,983
Future	–	(17,638)
NET EARNINGS	3,058,686	4,774,380
Retained earnings (deficit), beginning of year	975,053	(3,799,327)
Retained earnings, end of year	$ 4,033,739	$ 975,053
Earnings per share (Note 11) Basic	$ 0.08	$ 0.17
Diluted	$ 0.07	$ 0.10

See accompanying notes to the financial statements

LANIUK INDUSTRIES INC.
Consolidated Statements of Cash Flows
For the years ended August 31, 2002 and August 31, 2001

	2002	2001
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING		
Cash received from customers	**$ 43,231,275**	$ 54,173,807
Cash paid to suppliers and employees	**(30,698,106)**	(40,352,116)
Interest and other income received	**72,057**	25,441
Interest paid	**(1,570,641)**	(3,031,338)
Income taxes paid	**(3,547,047)**	(3,422,672)
	7,487,538	7,393,122
FINANCING		
Issuance of long-term debt	**67,850**	–
Repayment of long-term debt	**(6,779,052)**	(4,702,649)
Net repayments on operating loan	**(412,317)**	(2,526,755)
Issuance of common shares	**52,425**	86,130
	(7,071,094)	(7,143,274)
INVESTING		
Purchase of capital assets	**(443,573)**	(506,157)
Proceeds from disposal of capital assets	**26,581**	108,614
	(416,992)	(397,543)
NET CASH OUTFLOW	**(548)**	(147,695)
CASH, BEGINNING OF YEAR	**152,841**	300,536
CASH, END OF YEAR	**$ 152,293**	$ 152,841

See accompanying notes to the financial statements

LANIUK INDUSTRIES INC.
Notes to the Consolidated Financial Statements
For the years ended August 31, 2002 and August 31, 2001

1. DESCRIPTION OF BUSINESS

Laniuk Industries Inc., a public company traded on the TSX Venture Exchange, is incorporated under the Alberta Business Corporations Act. Its principal sources of revenue are earned through fabrication of natural gas wellsite processing equipment and through the manufacture and distribution of short-line farm implements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements included the accounts of the Company and all of its wholly owned subsidiary corporations.

Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported and disclosed in the consolidated financial statements and related notes. Actual amounts could differ from those estimates.

Inventory Valuation

Inventories of materials and supplies are valued at the lower of cost and net realizable value. Inventories of finished goods and work-in-progress include materials, labour and manufacturing overhead. Estimated unrealized inter-departmental profits in inventory have been eliminated.

Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives on a declining balance basis at the annual rates detailed in Note 4.

Deferred Financing Costs

Deferred financing costs are amortized on a straight-line basis over the term of the related debt.

Goodwill

Goodwill represents the excess of consideration paid over the fair value of net tangible assets acquired in business acquisitions and related costs of acquisition. Goodwill is being amortized on a straight-line basis over twenty years.

The ability to recover the carrying value of the goodwill is based on estimates which, by their nature, are subject to measurement uncertainty. The effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Statement of Cash Flows

The consolidated statement of cash flows has been prepared using the direct method.

Future Income Taxes

The liability method of tax allocations is used in accounting for income taxes. Under this method, future benefits and obligations are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted rates and laws that will be in effect when differences are expected to reverse. Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized.

Earnings per Share

Earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is determind using the "if-converted" method for senior equity instruments and the "treasury stock" method for options, warrants and their equivalents.

3. INVENTORY

Inventory is comprised of:

	2002	2001
Finished goods and work-in-progress	$ 12,065,666	$ 15,776,489
Raw materials	7,183,586	3,810,642
	$ 19,249,252	$ 19,587,131

4. CAPITAL ASSETS

	Rate	2002 Cost	2002 Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Land		$ 771,650	$ –	$ 771,650	$ 771,650
Buildings	5%	3,796,753	845,448	2,951,305	2,827,111
Office equipment	20%	528,973	307,756	221,217	264,892
Equipment and tools	20%	7,297,460	4,380,293	2,917,167	3,549,014
Automotive	30%	1,674,205	1,375,358	298,847	391,299
Jigs and dies	50%	372,550	347,913	24,637	49,274
		$ 14,441,591	$ 7,256,768	$ 7,184,823	$ 7,853,240

5. DEFERRED FINANCING COSTS

	2002	2001
Deferred financing costs	$ 2,631,670	$ 2,631,670
Accumulated amortization	1,749,472	1,308,317
	$ 882,198	$ 1,323,353

6. OPERATING LOAN

The Company has an operating loan facility with G.E. Capital Canada for a maximum of $20,000,000. The loan bears interest in a range of prime plus 0.25% to 3.25% per annum payable monthly or, at the Company's election, the Bankers Acceptance rate plus 1.40% to 4.50% per annum payable at maturity of the Bankers Acceptance. The rate is set quarterly based upon the leverage ratio as calculated under the terms of the credit agreement. The Company also pays interest in a range of 0.10% to 0.50% per annum on the unused portion of the facility, payable monthly. See Note 7 for security.

7. LONG-TERM DEBT

	2002	2001
G.E. Capital Canada, term loan A, due April 30, 2003.	$ 2,500,000	$ 4,250,000
G.E. Capital Canada, term loan B, due April 30, 2003.	13,939,816	18,959,473
Caterpillar Financial Services Ltd., due January 2004.	18,479	–
CIT Financial Services Ltd., due July 2006.	39,976	–
	16,498,271	23,209,473
Less current portion of long-term debt	16,439,816	6,672,029
Long-term debt	$ 58,455	$ 16,537,444

Principal payments for each of the next four years and to maturity are as follows:

2003	$ 4,932,230
2004	3,015,368
2005	3,010,662
2006	3,010,645
2007	2,529,366
	$ 16,498,271

7. LONG-TERM DEBT (continued)

G.E. Capital Canada term loan A bears interest in a range of prime plus 0.5% to 3.75% per annum payable monthly or, at the Company's election, the Bankers Acceptance ("BA") rate plus 1.60% to 4.75% per annum payable at the maturity of the Bankers Acceptance. The rate is set quarterly based upon the leverage ratio as calculated under the terms of the credit agreement. The loan is repayable in quarterly installments of $500,000 and matures April 30, 2003.

G.E. Capital Canada term loan B bears interest in a range of prime plus 0.70% to 4.00% per annum payable monthly or, at the Company's election, the Bankers Acceptance rate plus 1.80% to 5.0% per annum payable at maturity of the Bankers Acceptance. The rate is set quarterly based upon the leverage ratio as calculated under the terms of the credit agreement. The loan is repayable in quarterly installments of $250,000. In addition to the quarterly payments, the loan is to be repaid annually with cash flow sweeps equal to the greater of (i) 70% of excess cash flows, as determined under the credit agreement, or (ii) Year 2002 - $1,900,000 and any remaining balance at April 30, 2003 is due and payable at that time.

The GE Capital term loans and operating loans are secured by a general security agreement on all existing and after-acquired personal and real property, a mortgage on all real property of the Company and its wholly owned subsidiaries and a second priority interest on the dealer receivables of its wholly owned subsidiary, Ezee-On Mfg. Ltd. The loans are also secured by a personal guarantee of the majority shareholder and cross guarantees between the Company and all of its wholly owned subsidiary corporations.

Subsequent to year end the Company entered into negotiations with the Canadian Imperial Bank of Commerce ("CIBC"), a 50% partner in the credit agreement with GE Capital, to refinance its debt. Under the terms of a proposed agreement, which is expected to be finalized by the end of January 2003, CIBC will become the sole lender and will assume all security as previously described. Pursuant to this agreement, the revolving loan will have a maximum limit of $15,000,000 from January 15, 2003 to April 30, 2003 which will reduce to a maximum limit of $11,000,000 from May 1, 2003 to December 31, 2003. Interest is paid monthly, in arrears at prime plus 1.50% plus an additional fee of 0.35% for the unused portion of the facility. The facility is subject to renewal annually.

Term loan A will be repayable in quarterly instalments of $500,000 until September 1, 2003. Interest is charged monthly, in arrears at prime plus 1.75%.

Term loan B will be repaid in quarterly instalments of $250,000 until September 1, 2003 and will increase to $750,000 per quarter commencing December 1, 2003 plus an excess cash flow sweep of 70% commencing with the financial results for the 2003 fiscal year. Interest is charged monthly, in arrears, at prime plus 1.75%.

Both term loan A and term loan B are to be committed facilities for 364 days and subject to annual renewal.

At the option of the Company, the revolving loan may be locked into Bankers Acceptances for periods ranging from one to six months at a rate of BA plus 3.25%. The Term loans may be locked into Bankers Acceptances for similar periods at a rate of BA plus 3.50%.

The loan payable to Caterpillar Financial Services Ltd. is repayable in monthly instalments of $1,113 including interest at prime less 0.5%. The loan is secured by a Caterpillar Bobcat.

The loan payable to CIT Financial Services Ltd. is repayable in monthly instalments of $1,011 including interest at an effective rate of 8.94%. The loan is secured by a Vermeer trencher.

8. INCOME TAXES

Following is a reconciliation of income taxes at the statutory rate of 40.1% (2001 - 43.3%) to the income tax expense recorded on these financial statements:

	2002	2001
Income taxes at the statutory rate	$ 2,344,898	$ 3,987,378
Tax effect of permanent difference	831,931	959,383
Manufacturing and processing profits deduction	(359,043)	(960,356)
Other	(28,847)	447,940
Income tax expense per consolidated statement of earnings	$ 2,788,939	$ 4,434,345

9. FINANCIAL INSTRUMENTS

The Company's financial instruments are comprised of short-term assets and liabilities, loans payable, preferred share units and redeemable preferred shares. The carrying value of these financial instruments approximates their fair value because, in the case of the preferred share units, the conversion is based on the 10 day weighted average trading price prior to conversion; in the case of redeemable preferred shares, the instruments bear a dividend rate which approximates the market rate of interest; and, in the case of short-term assets and liabilities, the maturity terms are short.

Interest Risk

The Company's operating loans and long-term debt consist of loans that are subject to fluctuations in interest rates and the degree of volatility in these rates. For each 1% change in the rate of interest in loans subject to floating rates the impact on the operations of the Company may be significant. The Company actively manages its interest rate risk by converting all or a portion of its loans subject to fluctuating interest rates to Bankers Acceptance notes at rates fixed for a period of 30 to 90 days when it is beneficial to do so.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company's business has a large number of diverse customers which minimizes the concentration of credit risk.

Foreign Exchange Risk

The Company is subject to foreign exchange risk for sales and purchases denominated in foreign currencies. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company does not actively manage this risk.

10. SHARE CAPITAL

Authorized: An unlimited number of common shares.
An unlimited number of preferred shares.

	2002		2001	
	Shares	**Amount**	Shares	Amount
Issued				
Series 1 preferred shares				
Issued and outstanding,				
beginning and end of year	**9,000,000**	**$ 9,000,000**	9,000,000	$ 9,000,000
Issued				
Series 2 preferred shares				
Issued and outstanding,				
beginning of year	–	$ –	10,000,000	$ –
Conversion to common	–	–	(10,000,000)	–
Issued and outstanding,				
end of year	–	$ –	–	$ –
Common voting shares				
Issued and outstanding,				
beginning of year	**38,257,896**	**$ 3,464,853**	27,552,592	$ 3,378,723
Exercise of options	**149,500**	**52,425**	60,000	21,600
Conversion of loan agreements	–	–	645,304	64,530
Conversion of Series 2				
preferred shares	–	–	10,000,000	–
Issued and outstanding,				
end of year	**38,407,396**	**$ 3,517,278**	38,257,896	$ 3,464,853

The Preferred shares - Series 1 have the following attributes:

a) an annual cumulative dividend equal to 7% of their face value;
b) convertible to common shares after the third anniversary of date of issue;
c) mandatory redemption by the Company on the fifth anniversary of date of issue.

The Preferred shares - Series 1 plus accrued but unpaid dividends are convertible into common shares on the basis of one common share for that number of preferred shares that is determined by a formula inherent in the attributes of that class of preferred shares.

The Preferred shares - Series 1 have been treated as a debt instrument and the cumulative dividend attributed thereto has been accrued and reported as interest expense on the consolidated statement of earnings.

10. SHARE CAPITAL (continued)

Warrants

During the year NIL (2001 - NIL) share purchase warrants were exercised. As at August 31, 2002 there are 5,437,500 share purchase warrants outstanding which entitle the holders to acquire common shares at $0.90 per share until September 2002, increasing by $0.10 per share per year until expiry, September 2003.

Options

A summary of the options issued pursuant to the Company's share option plan as at August 31, 2002 and August 31, 2001 and changes during the years then ended is presented below:

	2002 Shares	2002 Weighted Average Exercise Price	2001 Shares	2001 Weighted Average Exercise Price
Outstanding, beginning of year	**2,340,000**	**$ 0.36**	2,400,000	$ 0.36
Granted	**1,187,000**	**0.46**	–	–
Exercised	**(149,500)**	**0.35**	(60,000)	0.36
Expired	**(180,000)**	**0.35**	–	–
Outstanding, end of year	**3,197,500**	**0.39**	2,340,000	0.36
Exercisable, end of year	**3,197,500**	**$ 0.39**	2,340,000	$ 0.36

The following table summarizes information about share options outstanding at August 31, 2002:

Exercise Price ($ per share)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Options Exercisable
0.36	2,010,500	1.83	2,010,500
0.60	20,000	1.17	20,000
0.45	260,000	1.83	260,000
0.45	907,000	4.67	907,000
	3,197,500		3,197,500

11. EARNINGS PER SHARE

Following is a reconciliation of weighted average and diluted shares:

	2002 Earnings Available to Common Shareholders	2002 Common Shares	2001 Earnings Available to Common Shareholders	2001 Common Shares
Net earnings	**$ 3,058,686**		$ 4,774,380	
Issued and outstanding, beginning of year		**38,257,896**		27,552,592
Weighted average shares issued for conversions during the year	–	**41,615**	–	72,413
Earnings and weighted average common shares	**3,058,686**	**38,299,511**	4,774,380	27,625,005
Earnings per share	**0.08**		0.17	
Adjustment for conversion during the year	–	**107,885**	–	10,632,891
Conversion of Series 1 preferred shares and accrued but unpaid interest	**630,000**	**12,800,000**	630,000	13,612,500
Conversion of Series 2 Exercise of options	–	**627,289**	–	756,029
Earnings and diluted share	**3,688,686**	**51,834,685**	5,404,380	52,626,425
Diluted earnings per share	**$ 0.07**		$ 0.10	

The calculation of diluted shares does not include the exercise of 5,437,500 warrants and 20,000 options. Under the Treasury-Stock method, these warrants and options would not be exercised as the exercise price is higher than the average daily closing price for the year.

12. COMMITMENTS

As of August 31, 2002 the Company has outstanding documentary letters of credit totaling $134,562 for the purchase of raw materials for its subsidiary Ezee-On Mfg. Ltd.

13. RELATED PARTY TRANSACTIONS

During the year the Company provided services totaling $58,865 recorded at the exchange amount under normal business terms to a director of the corporation. As at August 31, 2002 the amount owing from the director is $58,865 (2001 - NIL). This amount is included in trade accounts receivable.

14. REVENUE

The Company derives significant revenue from certain customers. In 2002, two customers in the fabrication of natural gas processing equipment segment individually accounted for more than 10% of revenue. Revenue from these customers amounted to $8,179,097. In 2001, three customers in the fabrication of natural gas processing equipment segment individually accounted for more than 10% of revenue. Revenue from these customers amounted to $26,065,430 in 2001.

15. SEGMENTED INFORMATION

The Company operates in two main reportable segments, with each segment offering different products and services. The segments are fabrication of natural gas processing equipment and manufacturing of farm implements.

	Fabrication of Natural Gas Processing Equipment		Manufacture of Farm Implements		Total	
	2002	2001	**2002**	2001	**2002**	2001
	$	$	**$**	$	**$**	$
Revenues from external customers						
Domestic	**22,780,682**	45,555,685	**7,945,790**	7,530,248	**30,726,472**	53,085,933
Australia	**–**	–	**4,222,959**	2,108,539	**4,222,959**	2,108,539
United States	**–**	–	**2,433,548**	2,401,895	**2,433,548**	2,401,895
Total revenue from external customers	**22,780,682**	45,555,685	**14,602,297**	12,040,682	**37,382,979**	57,596,367
Interest expense	**–**	390,510	**1,012,719**	2,121,922	**1,012,719**	2,512,432
Amortization of capital assets	**205,219**	215,588	**143,784**	183,193	**349,003**	398,781
Segment earnings before parent company charges	**5,054,151**	9,920,520	**2,412,105**	12,450	**7,466,256**	9,932,970
Segment assets	**9,001,104**	14,946,821	**17,717,964**	18,084,151	**26,719,068**	33,030,972
Expenditures for capital assets	**235,327**	454,957	**207,996**	51,200	**443,323**	506,157
Reconciliation of segment profit to consolidated financial statements						
Total earnings for reportable operating segments					**7,466,256**	9,932,970
Other loss					**–**	–
Interest charged to reportable segments					**1,012,719**	2,512,432
Unallocated amounts:						
Administration expenses not charged to reportable segments					**(1,312,324)**	(1,957,336)
Interest on Series 1 preferred shares					**(630,000)**	(630,000)
Interest expense					**(1,570,642)**	(3,031,338)
Amortization					**(1,869,364)**	(2,049,199)
Income taxes					**(37,959)**	(3,149)
Consolidated net earnings					**3,058,686**	4,774,380
Reconciliation of segment assets to consolidated assets						
Total assets for reportable operating segments					**26,719,068**	33,030,972
Other assets					**287,270**	18,575
Deferred financing costs					**882,196**	1,323,353
Capital asset fair value increment on consolidation					**4,346,220**	5,095,477
Goodwill on consolidation					**10,830,122**	11,507,006
Total consolidated assets					**43,064,876**	50,975,383

Corporate Information

Directors & Officers
Dale Laniuk, Director
President & Chief Executive Officer

Eugene Demkiw, Director
(Founding principal of Ezee-On)

William Kuzyk, Director
(Partner, Kuzyk & Bombak legal firm)

Gerald Smith, Director
(Associate, Dean Duckett Amelio)

John Yannitsos, Director
Vice President

Paul Casey, CA
Chief Financial Officer

Solicitors
Kuzyk & Bombak Law Office
Vegreville, Alberta

Main Bankers
G.E. Capital
Chicago, Illinois

CIBC
Edmonton, Alberta

Auditors
Deloitte & Touche LLP
Edmonton, Alberta

Transfer Agent
CIBC Mellon Trust Company
Calgary, Alberta

Stock Exchange Listing
TSX Venture Exchange (symbol LII)

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